

March 8, 2002

Mary L. Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station  
Boston, MA 02110

**RE: D.T.E. 01-81 - Petition of Bay State Gas Co. for authority to establish Gas Cost Incentive Mechanism pursuant to MGL c. 164 § 94 and 220 CMR §6.00 et seq.**

Dear Secretary Cottrell:

Enclosed for filing please find an original and six copies of the Massachusetts Division of Energy Resources (DOER) fourth set of information requests issued in response to the initial filing in the above referenced proceeding. A copy of the filing has been served on all parties to the proceeding.

If you have any questions or need additional information please feel free to contact me at (617) 727-4732 x-132.

Sincerely,

Matthew T. Morais  
DOER Legal Counsel

Enclosures  
cc: service list

## **CERTIFICATE OF SERVICE**

I, Matthew T. Morais, certify that I have served a copy of the DOER fourth set of information requests in D.T.E. 01-81, contained herein, on each individual on the service list in D.T.E. 01-81 on file with the Department of Telecommunications and Energy.

Dated at Boston, Massachusetts, this 8th day of March 2002.

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Matthew T. Morais  
Legal Counsel  
DOER  
70 Franklin Street, 7<sup>th</sup> Floor  
Boston, MA 02110-1313

March 8, 2002

John A. DeTore, Esquire  
Rubin and Rudman, LLP  
50 Rowes Wharf  
Boston, MA 02110-3319

**Re: D.T.E. 01-81 – Petition of Bay State Gas Co. for authority to establish Gas Cost Incentive Mechanism pursuant to MGL c. 164 § 94 and 220 CMR §6.00 et seq.**

Dear Mr. DeTore:

Enclosed please find the Massachusetts Division of Energy Resources (DOER) fourth set of information requests issued in response to the initial filing in the above referenced proceeding.

Thank you for your attention in this matter. If you have any questions or need additional information please feel free to contact me at (617) 727-4732 x-132.

Sincerely,

Matthew T. Morais  
DOER Legal Counsel

Enclosure

cc: service list

**COMMONWEALTH OF MASSACHUSETTS DEPARTMENT OF  
TELECOMMUNICATIONS AND ENERGY**

\_\_\_\_\_) )  
Bay State Gas Company ) DTE 01-81  
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**FOURTH SET OF INFORMATION REQUESTS OF THE  
DIVISION OF ENERGY RESOURCES TO THE BAY STATE GAS COMPANY  
REGARDING THE INITIAL FILING IN DTE 01-81**

Pursuant to 220 CMR 1.06(6)(c), the Division of Energy Resources (DOER) hereby submits the following information requests to the Bay State Gas Company (“Company”) regarding the above referenced proceeding.

**Instructions**

For the purpose of the DOER information requests any reference to the “Company” shall mean the Bay State Gas Company.

All references in the information requests are to the Bay State Gas Company filing that is the subject of DTE 01-81.

In responding to the information requests, DOER requests that the Company please provide complete and detailed responses to all questions. DOER also requests that the Company provide all relevant documentation<sup>1</sup> required to support/substantiate the responses as soon as practicable, but in no case later than the deadline for discovery responses mandated in the procedural schedule for this proceeding.

Please provide each response on a separate page with the following:

- 1) a reference to the DTE docket number;
- 2) a recitation of the information request to which the Company answer responds (including the information request identification/reference number – e.g. DOER 1-1), and;
- 3) The identification and business title and address of the person responsible for the response to each information request.

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<sup>1</sup> The term “relevant documentation” includes, but is not limited to: correspondence, graphs, charts, notes, records, reports, data, calculations, estimates and assumptions (and supporting data from which estimates and assumptions were drawn) or any other information source/document in whatever manner maintained or compiled, including mainframe or magnetic media, that is related answers provided in response to the DOER information requests.

In order to expedite the review of the responses please provide the responses as they are completed. Please do not wait for the completion of all responses.

DOER also requests that the Company provide supplemental responses to the DOER first set of information requests contained herein if the Company develops or obtains additional information within the scope of said information requests subsequent to the provision of the initial response and prior to the close of the record in DTE 01-81.

If any of the DOER information requests are ambiguous or need clarification in any way, please notify Matt Morais, DOER Legal Counsel, at the Division of Energy Resources at 617-727-4732 ext. 132 in order to clarify the information request prior to the preparing the response.

### **INFORMATION REQUESTS**

**DOER 4-1** – Please provide all written risk management policies, procedures, guidelines, standards not heretofore provided, related to Nisource, Energy Supply Services, Baystate, or any other Nisource subsidiary or affiliate, if relevant to the proposed Baystate GCIM, and all relevant documentation. Please also provide/describe all related unwritten risk management policies, procedures, guidelines, standards that are implemented by Nisource, its subsidiaries or affiliates if such risk management policies, procedures, guidelines, standards apply to management of the Company's proposed GCIM.

**DOER 4-2** – Please refer to page 3 of the direct testimony of Karl E. Stanley ("KES"). Line 10 of the testimony refers to "business risks". Please describe the level/degree of business risk that the Company believes is appropriate for a regulated LDC operating in state transitioning to a competitive retail market.

**DOER 4-3** - Please refer to page 3 of the direct testimony of Karl E. Stanley (“KES”).

Lines 11-14 refer to the “considerable real-world experience” of Nisource in risk management (“RM”) that will benefit Baystate. Has this experience been in RM activities related regulated LDCs, competitive suppliers, or both?

**DOER 4-4** – Please refer to page 3 of the direct testimony of Karl E. Stanley (“KES”).

Lines 14-17 refer to established RM policies and organizational structure. Are these readily transferable to administration of the proposed Baystate GCIM? Please thoroughly describe how they are transferable.

**DOER 4-5** – Please refer to page 3 of the direct testimony of Karl E. Stanley (“KES”).

Line 23 refers to appropriate “limits and controls”. Please describe/define, with specificity, the limits and controls referred to in this section of the testimony.

**DOER 4-6** – Please refer to page 3 of the direct testimony of Karl E. Stanley (“KES”).

Lines 21-23 state that Baystate will be subject to the Energy Supply Services (“ESS”) Risk Policy. This document was provided in Appendix B to the KES testimony. The document is marked as a “Draft”. Please explain why the document is a draft and provide the date that the document will be produced in its final form. Is it possible that the document may change from the draft provided?

**DOER 4-7** - Please refer to page 3-4 of the direct testimony of Karl E. Stanley (“KES”).

Line 34 refers to “fully qualified and experienced risk-management professional”. Please

define these experience levels in terms of education and work experience. Page 4, line 1 refers to “comprehensive evaluations” of each trade. Please describe in detail what steps/procedures constitute a “comprehensive evaluation”. Please describe the average time required to execute relevant RM trades and do such transactions generally allow for a “comprehensive evaluation” prior to execution?.

**DOER 4-8** - Please refer to page 4 of the direct testimony of Karl E. Stanley (“KES”). Lines 10-12 state that the Corporate Risk Management department (“CRM”) has the authority to monitor and evaluate all trades. Will the CRM perform these oversight functions prior to, contemporaneously with, or after, the execution of trades associated with the Baystate GCIM? If after the fact, how long after the trades have been executed?

**DOER 4-9** - Please refer to page 5 of the direct testimony of Karl E. Stanley (“KES”). Lines 3-13 discuss in general terms the risks associated with Nisource’s business. Please describe with specificity, the types of risks that are applicable to the operation of Baystate. Please describe in detail the types of RM transactions that are best suited to mitigate such risks. Please list these transactions in order, starting with the transaction type that poses the most risk to the type that poses the least risk in terms of financial loss.

**DOER 4-10**- Please refer to page 5 of the direct testimony of Karl E. Stanley (“KES”). Lines 10-11 refer to “knowledgeable and deliberate decision making”. Please define “knowledgeable” in terms of Nisource’s historical experience in RM and please define “deliberate” in terms of the process that guides the RM decision making process.

**DOER 4-11-** Please refer to page 6 of the direct testimony of Karl E. Stanley (“KES”).

Lines 6-24 describe the eight objectives of the NiSource RM program. Objective number one describes the operation of a disciplined program to manage risks. Are the types of risks to be managed by a RM program unique to the operations of a specific company?

Please list the individuals, name and title, in the Baystate organization that will be responsible for managing the risks attendant to the operation of the Company.

Objective number two (lines 9-11) refers to “management information systems”. Does Baystate have these systems in place? If not, please describe when the systems will be in place and the cost of installing and operating such systems, including personnel costs (training and operation/administration).

Objective three (lines 12-14) refers to independent counterparty and market risk management activities/functions. Please provide the names and titles of the individuals that will perform these functions for the Baystate GCIM.

Objective four (lines 15-16) refers to pre-set limits and states that breaches of such will be reported. If the limits are breached, will the Company be responsible for the entire amount associated with losses resulting from a breach of pre-set limits?

Objective five states that the financial impact of adverse moves in the market will be proactively evaluated. Please describe in detail what steps/processes will comprise a “proactive evaluation”. Once the evaluation is completed what remedial steps/activities will be taken to address an “adverse” move? Also, please provide all relevant documentation associated with these processes/activities. Please provide the names and titles of the individuals that will perform these functions for the Baystate GCIM. Will



Baystate have in house resources to perform this function? If not will NiSource dedicate specific personnel to perform these functions exclusively for Baystate?

Objective six refers to authorizing only “professionals with requisite skills and experience” to conduct trading activities, etc. Please define in detail what qualifies as “requisite skills and experience” to meet this objective.

Objective seven refers to routine test of business units under stress conditions. Please define “routine” in terms of a precise schedule, and define a “stress condition”. Please define both relative to the operation of the Baystate GCIM.

Objective eight refers to the use of an effective control, audit and reporting framework to verify the integrity of the enterprise-wide risk practices. Does each business unit employ its own control audit and reporting framework? If so, does Baystate have one in place? If not, when will the Company have one in place?

Explain how objectives one through eight will be implemented for the Baystate GCIM. Please include the implementation schedule and identify all relevant personnel involved in the implementation and administration of the program.

**DOER 4-12-** Please refer to page 7 of the direct testimony of Karl E. Stanley (“KES”).

Lines 10-12 refer to “enterprise wide risk limits”. Please explain the relevance of the enterprise wide limits to the operation of the Baystate GCIM.

**DOER 4-13-** Please refer to page 7 of the direct testimony of Karl E. Stanley (“KES”).

Lines 16-18 state that the Risk Management Committee (“RMC”) oversees the Company’s risks on a day to day basis. Does “Company” refer to NiSource or Baystate?

If NiSource, does that include Baystate daily transactions? Does it also include all other NiSource subsidiaries? Line 19 state the RMC is comprised of seven individuals. Please provide an estimate of the number of transactions the RMC has to oversee in executing the oversight responsibilities.

**DOER 4-14-** Please refer to page 8 of the direct testimony of Karl E. Stanley (“KES”). Lines 3-5 states that the RMC has the authority to establish RM parameters for each business unit. The testimony states the RMC has the authority to establish unit specific parameters. Does the RMC, in fact, establish parameters for each business unit? Have such parameters been established for Baystate? If not, when will they be established? Describe in detail, the process used by the RMC to establish these unit specific parameters. Provide all relevant documentation associated with the process.

**DOER 4-15-** Please refer to page 9 of the direct testimony of Karl E. Stanley (“KES”). Lines 17-18 states that the Corporate Risk Management Department (“CRMD”) is responsible for reviewing the daily risk reporting for each business unit. Where is the CRMD located? Please describe the staffing level of the CRMD and the estimate the number of transactions/risk reports they review on a daily basis.

**DOER 4-16-** Please refer to pages 9-10 of the direct testimony of Karl E. Stanley (“KES”). Lines 10 (page 9) – 5 (page 10) describe the purpose of the NiSource RM Policy. Is the general NiSource RM Policy applicable/readily transferable to the specific circumstances/situation of each of the NiSource subsidiary business units? Please

provide prior examples of the application of the NiSource RM policy to a subsidiary business unit. Please also provide all relevant documentation that supports the example(s).

**DOER 4-17** - Please refer to page 10 of the direct testimony of Karl E. Stanley (“KES”). Lines 1-5 states that all RM employees are required to acknowledge their RM responsibilities by signing a signature page. Please provide copies of all signature pages for individuals that will be responsible for execution and administration of the Baystate GCIM.

**DOER 4-18** - Please refer to page 10 of the direct testimony of Karl E. Stanley (“KES”). Lines 3-5 states that a violation of the RM policy may result in dismissal. If a violation occurs that results in a financial loss, regardless of amount, will the Company be responsible for the entire amount of the loss?

**DOER 4-19** - Please refer to page 10 of the direct testimony of Karl E. Stanley (“KES”). Lines 8-20 describe RM controls and controls contained in the NiSource RM policy. Lines 8-9 refer to independent oversight, verification and control. Describe the independent control authority(ies) and the oversight, verification and control process in detail.

Lines 11-12 state that each business unit will have predefined trading limits. How were Baystate’s limits determined/derived? Please provide all relevant documentation associated with the derivation of the Baystate limits.

Lines 13-14 refer to “extensive documentation” for all RM related activities. Please describe in detail/list the types of documentation are included in this phrase.

**DOER 4-20** - Please refer to page 10 of the direct testimony of Karl E. Stanley (“KES”).

Lines 15-17 states that the CRMD reviews the risk profile of each business unit on a daily basis. Please thoroughly describe this review process and provide an example of a CRMD daily review. Please provide all relevant documentation that supports the review example.

Lines 17-18 state that RM activities are also subject to internal and external audits from time to time. Define “time to time”.

**DOER 4-21** - Please refer to page 11 of the direct testimony of Karl E. Stanley (“KES”).

Line 4 refers to “accepted methods and tools”. Please define these terms in detail.

Line 5 states that positions are marked to market. Please define how a position is marked to market and the value that this provides to the Company. When a position is marked to market what is considered a favorable result and what is considered unfavorable? What actions will Baystate take if a position is unfavorable?

Lines 7-8 refer to a “stress simulation” to evaluate portfolio performance under “adverse conditions”. Please define/describe a stress stimulation process. Please define what is considered an “adverse condition” that would warrant the use/application of a stress simulation. What would be considered an unfavorable result from a stress simulation. Please provide an example. Please describe the actions that would be implemented if the stress simulation produced unfavorable results.

**DOER 4-22** – Please define and describe “collars,” “straddles,” and “spreads” as applied to Nisource risk management policy(ies), including in your description and explanation and quantification of the degrees of risk associated with these three mechanisms.

**DOER 4-23** – Please explain how the Nisource Risk Management Policy(ies) will more effectively minimize risk to default service customers than would otherwise be minimized through limiting the types of transactions available for use by the distribution company.

**DOER 4-24** – Please identify all sources/markets used by Nisource, in addition to the NYMEX.

**DOER 4 – 25** – Please identify and provide copies of all “applicable policies” referenced on Page 16, line 11 of Karl E. Stanley’s testimony being implemented to ensure compliance and transparency.

**DOER 4 – 26** – Please describe how separate portfolio and reporting requirements will ensure that any benefits accrued flow to Bay State’s customers and not to the benefit of other affiliates.

**DOER 4 – 27** – Please explain how the \$ 5,000,000 loss limit will affect or otherwise limit the total losses Bay State customers would incur in the proposed GCIM.

**DOER 4 – 28** – Please explain the mitigation procedures implemented to address losses that could accumulate but have not reached the \$ 5,000,000 loss limit.

**DOER 4 – 29** – Please explain the application of the monthly and annual position limits with respect to interim, accumulating losses. If there are no net losses within a particular month/year, why should the position limits continue to apply?

**DOER 4 – 30** – With reference to Page 17, Line 13 of Karl E. Stanley’s testimony, please explain how the monthly and annual supply requirements are quantitated; by dollars, volume, etc.

**DOER 4 – 31** – Please explain how daily reporting disclosures of unrealized gains and losses associated with open positions are made for each affiliate and in accordance with what set of standards; i.e. FASB, GAAP.

**DOER 4 – 32** – With respect to Page 18, Lines 6 – 8 of Karl E. Stanley’s testimony, describe the market conditions necessary for precipitating a stress simulation to determine a probabilistic assessment of potential outcomes. Please provide with your response a written example of such a simulation performed by ESS, including all assumptions.

**DOER 4 – 33** – With respect to Page 19, Lines 1- 3 of Karl E. Stanley’s testimony, explain how the Corporate Risk Management Department independently analyzes/will

analyze the risk position of Bay State's portfolio to ensure that it is in compliance with pre-established limits. Include in your response a written example of such an analysis as performed by the Corporate Risk Management Department.

**DOER 4 – 34** – Please explain how risk management functions used to monitor all trading activity will be applied, modified, revised to address such monitoring specific to Bay State. Include in your response the names, business titles, physical location, and job descriptions of all persons employed by Nisource and by Bay State who will perform such functions.

**DOER 4 – 35** – Explain how all information concerning trading activity will be coordinated and communicated between Bay State and Nisource. Please provide the implementation schedule for all decision-making that requires the participation of the Corporate Risk Management Group.

**DOER 4 – 36** – Please describe all financial mechanisms; i.e. insurance, letters of credit; being implemented by or on Bay State's behalf to guarantee performance. If no such mechanisms exist, fully explain the basis for the decision not to employ such mechanisms, including in your response the appropriate industry standards applied to the decision-making process.

**DOER 4 – 37** – Fully explain the planning process that begins with/ will begin with the assessment of the current price position and physical requirements of Bay State’s portfolio, as set forth at Page 21, Lines 16 – 17 of Karl E. Stanley’s testimony.

**DOER 4 – 38** – With reference to Page 22, Lines 5 – 13, explain fully how verification that a trade is within allowable limits will be documented and accounted for to ensure transparency and to ensure that the effect of each trade is properly allocated to Bay State.

**DOER 4 – 39** – Provide the actual implementation schedule used to generate daily summaries of open positions and daily trading account activity by the ESS trading group and by RMI, as set forth at Page 23, Lines 12 – 14 of Karl E. Stanley’s testimony.

**DOER 4 – 40** – Fully explain, and include with such explanation an implementation schedule, the mechanisms employed by the Corporate Risk Management Group to maintain ongoing control and to monitor all elements of the trading process, as set forth at Page 24, Lines 5 – 12 of Karl E. Stanley’s testimony. Include in your response a written example of an analysis of a risk profile and an audit performed by the Corporate Risk Management Group and/or its delegates.

**DOER 4 – 41** – Fully explain the process employed to ensure that Trading Operations, Treasury, and Accounting have sufficient information concerning trading to discern whether unauthorized trading has occurred or is occurring.



**DOER 4 – 42** – Fully explain how the types of approved trading instruments will vary within different state regulatory climates, including in your response the analysis required to make such determination(s).

**DOER 4 – 43** – Fully explain whether, for a regulated local distribution company, unit specific trading instruments are intended to maximize profits such that local distribution companies may effectively compete with unregulated suppliers.

**DOER 4 – 44** – Please explain whether the predominate purpose of the ESS Risk Management Policy is to maximize competitive efforts of local distribution companies or to minimize costs to consumers. If the response identifies both purposes as equally important, fully explain how the Risk Management Policy harmonizes such competing interests.

**DOER 4 – 45** – Please explain completely how and when a specific risk management policy will be developed for Bay State Gas company. Include with your response written examples of specific policies developed and implemented for other local distribution companies.

**DOER 4-47** – Please estimate the overhead costs associated with implementing and administering the Baystate GCIM program (including all equipment/software/personnel costs). How will these additional GCIM program related costs be paid for? Does the Company intend to pass all the costs on to the customer?

**DOER 4-48** – Please provide the NIPSCO RM oversight documents for NIPSCO.

**DOER 4-49** - Regarding the Company's response to DOER 1-17, please explain all of the types of interest expenses the Company will be trying to collect/refund in the GCIM.

**DOER 4-50** - Regarding the Company's response to DOER 1-4, please explain how and when the Company will propose to account for any subsequent supplier billing adjustments in the GCIM.

**DOER 4-51** - Regarding the Company's response to DOER 1-16, if the Company had purchased futures contracts for September and October through the deferral of injections in April and May to September and October for the season prior to the most recent season described in DOER 1-16, then what kinds of savings, if any, would have probably occurred?

**DOER 4-52** - Regarding response to DOER 1-21, if the Company were to purchase storage in June '02 and make some savings, please explain when these savings would be returned to default service customers through the CGAC.

**DOER 4-53** - Please list all data responses in which the Company has used data and information linked to EASy, the Company's accounting system.

**DOER 4-54** - Please explain why the volume on March 11<sup>th</sup> from Supplier J in the last sentence of DOER 2-1 differs from the March 11<sup>th</sup> volume of Supplier J found in response to AE 1-7.

**DOER 4-55** - Does response to DOER 2-3 indicate at the bottom right of the second page that, if the GCIM had been in place and the Company's purchasing strategy for March 2001 was exactly the same as the purchases shown in the exhibit, then "savings" of \$24,855.77 would have resulted with default service customers getting \$6,972.26 and the Company keeping \$17,883.51?

**DOER 4-56** - Does response to DOER 2-3 indicate at the bottom middle of the second page that, if the GCIM had been in place and the Company's purchasing strategy for March 2001 was exactly the same as the purchases shown in the exhibit, then default service customers would have paid \$18,237,516.57 for March-purchased supply but, if no GCIM existed, then default service customers would have paid \$18,219,633.06 for March-purchased supply?